INFRASTRUCTURE NEEDS OF CANADIAN MUNICIPALITIES 1986 - 1990

JOINT REPORT OF THE
PROVINCIAL AND TERRITORIAL
MINISTRIES/DEPARTMENTS RESPONSIBLE
FOR MUNICIPAL AFFAIRS

NOVEMBER, 1985

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I INTRODUCTION

- Municipal infrastructure is a cornerstone upon which economic activity and development in the thousands of communities across Canada is based. Largely unrecognized and particularly neglected is the major contribution which investment in municipal infrastructure makes toward the creation of long-term jobs.

- Concern about the adequacy of municipal infrastructure in Canada began to surface in the early eighties. The combination of constrained municipal budgets, high interest rates, and a greater reliance by municipalities on financing capital expenditures from current revenues, resulted in infrastructure not being renewed and maintained at a sufficient rate to avoid deterioration.

- At the 1985 Conference of Ministers of Municipal Affairs in Saskatoon a commitment was made to prepare a report on the capital funding requirements of Canadian municipalities for the next five years.

- This report, prepared through the cooperative efforts of all provinces and territories, assesses the infrastructure needs of municipalities across Canada and determines how these needs relate to past years in terms of reasonableness, the existence of any backlog and the extent to which a funding shortfall currently exists.

° For consistency of both presentation and year-to-year comparisons, all amounts - forecast, estimated and historical - were restated in constant 1985 dollars using Statistics Canada's municipal government capital expenditure on plant and equipment price index.

° The historical data was assembled from Statistics Canada's publications on local government finance. The 1985 to 1990 forecast and minimum required expenditure data were derived from representative samples of five-year capital budgets of Canadian municipalities.

II BACKGROUND TO THE REPORT

° In June, 1983 the Federation of Canadian Municipalities (FCM) established a task force to assess the problem and to develop ways of dealing with it. Its report, completed early in 1985, identified funding shortages as the leading cause for the decline in municipal infrastructure.

° The report estimated that about $12 billion was needed, over and above the amounts spent annually by municipalities, to reverse the process. Spread over five years this would entail additional annual outlays of $2.4 billion.

° The report concluded that the additional funding requirement is beyond the means of most municipalities, without additional assistance from senior levels of government.

° Since the publication of the FCM report, investigation by the provincial ministries of the environment and transportation, centring on water and sewer systems and on roads, bridges and transit systems, were initiated.

III DEFINITION OF MUNICIPAL INFRASTRUCTURE

° One of the major tasks of all levels of government is the provision of public or social overhead capital. In the context of this report, infrastructure is defined as the physical plant and equipment required by Canadian municipalities to provide a broad spectrum of public services. These range from basic services such as local roads, transit and sewer and water systems to the provision of recreational and cultural facilities. Included in the definition are such items as the rolling stock and the machinery necessary to operate the services.

° Municipal infrastructure needs may involve the first time acquisition of plant and equipment, the expansion of existing plant and equipment or the rehabilitation of

existing plant and equipment. Generally, municipal infrastructure needs reflect local growth or servicing backlogs arising from underspending in prior years.

° Municipal infrastructure needs vary considerably from province to province depending on such factors as the age of existing plant and equipment, the degree of urbanization and the current and past levels of economic development.

° The report identifies two levels of infrastructure needs. The first is a forecast of the actual anticipated expenditures to be incurred by municipalities between 1986 and 1990. The second is an estimate of the minimum expenditures required by Canadian municipalities to restore existing facilities to a basic state of repair.

IV ROLE OF MUNICIPAL INFRASTRUCTURE IN THE ECONOMY

° The economic importance of municipal infrastructure in Canada, although largely unrecognized, should not be underestimated.

° Although responsibility for municipal infrastructure falls mainly on municipalities and indirectly, on their respective

provinces, the economic benefits are much more widely shared by everyone in Canada.

- The Federal Government, because of its involvement in regional and economic development, also benefits from a viable, well maintained municipal infrastructure system.

- There are several aspects about municipal infrastructure which have significant economic implications. These include the employment stimulus provided by the $5.3 billion infused annually into the economy, the hundreds of millions of dollars in the form of direct and indirect taxes which flow annually into provincial and federal treasuries and the facilitating role played in attracting new industries.

- The employment stimulus, in particular, is considerable and cannot be ignored. Approximately 100,000 to 130,000 full-time jobs or, 20,000 to 30,000 new jobs each year are created by these expenditures.

- The lack of municipal infrastructure has been identified as a definite impediment to economic development. Provinces have cited many examples of inadequate municipal infrastructure facilities as the leading cause for the failure of industries to locate or remain in particular communities.

° Clearly, municipal infrastructure has an important role to play in fostering economic growth, development, and job creation in Canada. The financial and economic consequences of a declining or inadequate municipal infrastructure warrant a concentrated and cooperative commitment on the part of all levels of government toward ensuring that it be kept in a reasonable state of repair and expanded where necessary.

V REVIEW OF PAST MUNICIPAL CAPITAL EXPENDITURES

° The pattern of capital expenditures by all municipalities in Canada since 1971 can be divided into two distinct segments, one of growth up to 1980 and one of decline after 1980.

° Spending rose from $3.7 billion in 1971 to a high of $6.3 billion in 1980, then fell gradually to $5.1 billion in 1984, a drop of nearly 20 per cent (Chart 1).

° Expressed as a ratio of GNP, capital spending by Canadian municipalities started on a declining trend following 1975 when it reached a high of 1.60. The ratio steadily declined to an all time low of 1.15 per cent in 1984 and remains at that level in 1985 (Chart 6).

CAPITAL EXPENDITURE RECORD OF CANADIAN MUNICIPALITIES 1971–1985

(CONSTANT 1985 DOLLARS)

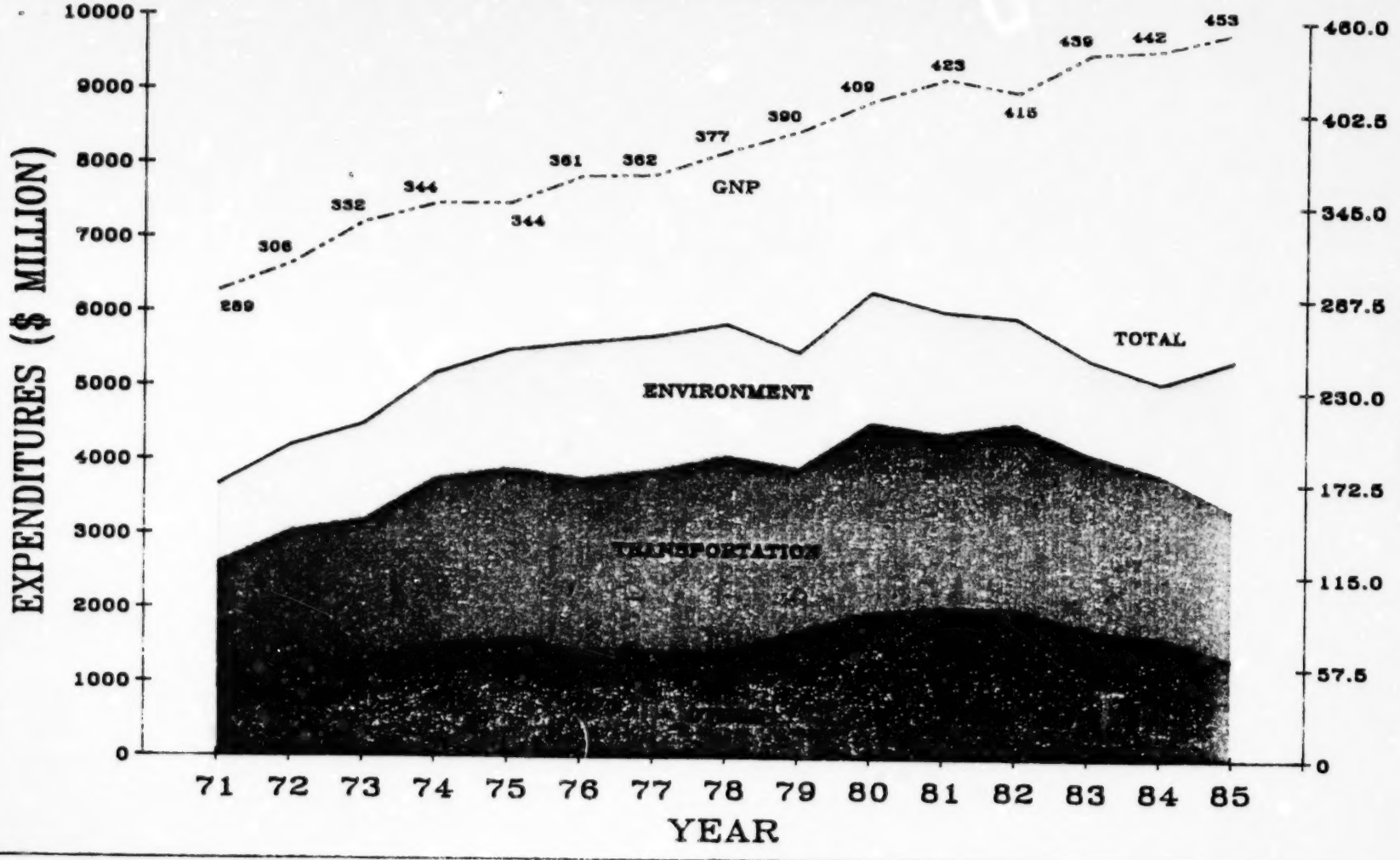


CHART 1

° Transportation together with environment accounted for the bulk of capital spending, averaging 42 and 29 per cent of the total, respectively. Nearly $57 billion was spent on these two services between 1971 and 1985 (Chart 1).

° The fact that in excess of 70 per cent of the spending centred on "hard services" facilities such as roads, bridges, water and sewer lines and treatment plants clearly demonstrates the high priority given by municipalities to the state of repair of these vital facilities. It also suggests that these facilities were earmarked for the maximum available level of funding.

° For most of the 15 year period, Ontario (34.4%) and Quebec (25.6%) consistently spent the largest amounts while Alberta showed the greatest and longest sustained growth trend from 1972 through 1982.

VI FEDERAL FUNDING RECORD

° Considering the role played by municipal infrastructure in the national economy, the federal funding record has been limited during the past 15 years. Between 1971 and 1983, the last year for which data is available, the maximum level of federal payments reported by municipalities was 7.2 per cent of annual municipal capital spending and averaged

LEVEL OF FEDERAL CAPITAL GRANTS TO CANADIAN MUNICIPALITIES 1971–1983

($ MILLION, CONSTANT 1985 DOLLARS & AS A % OF EXPENDITURES)

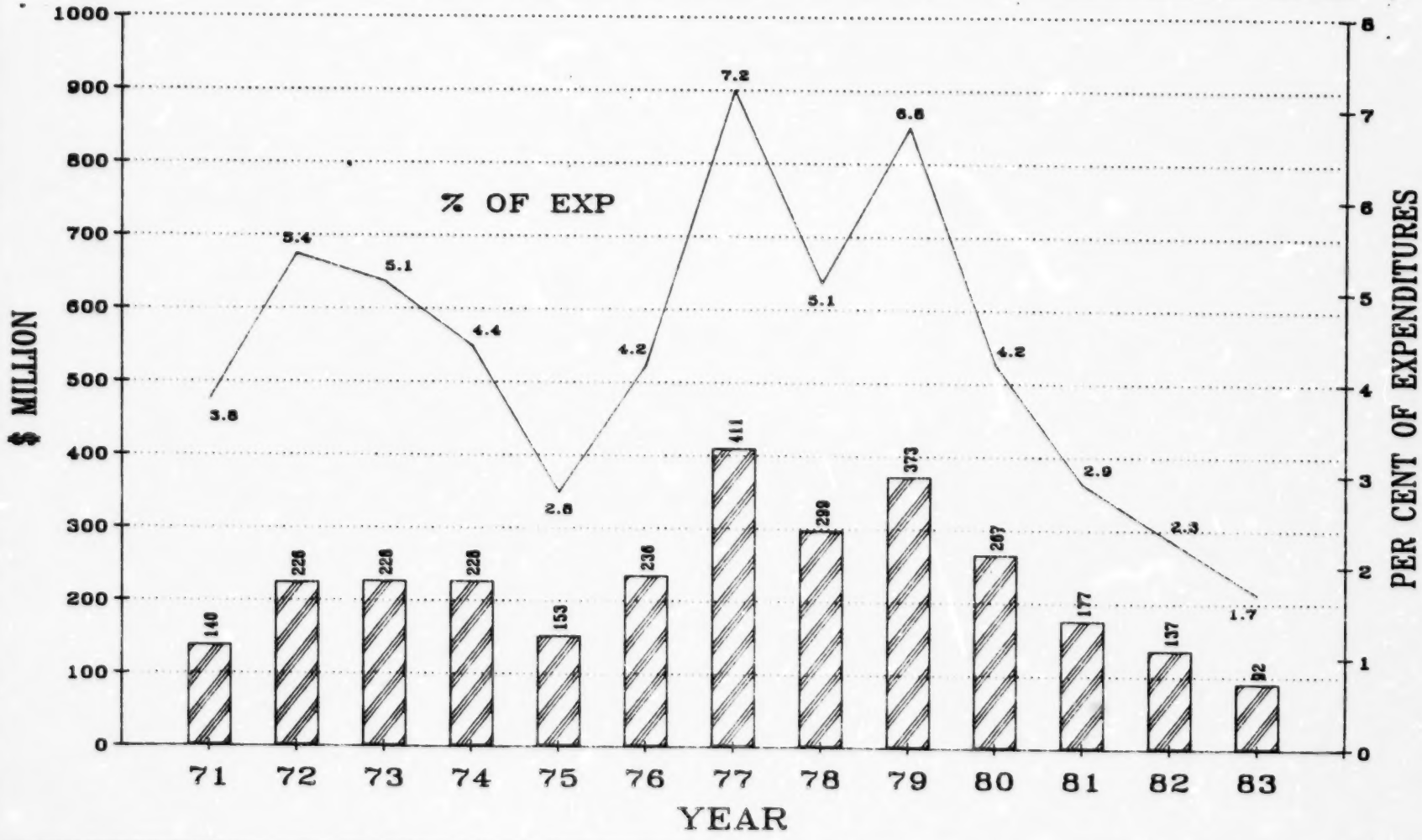


CHART 2

approximately $211 million per year in constant 1985 dollars (Chart 2). Even if adjustments are made to reflect those federal payments channelled through the provinces, federal funding never exceeded 11 per cent of municipal capital expenditures.

° Several federal assistance programs to municipalities were implemented after the end of the Second World War when most of Canada's infrastructure was put into place. These programs had a significant impact on the industrialization of Canada during the late forties and fifties.

° Since then, however, most federal initiatives have been too small or too short lived to leave lasting benefits with respect to long-term job creation.

° The Community Services Contribution Program (CSCP) was the last major funding initiative of the Federal Government toward municipal infrastructure. Approximately $250 million was delivered annually under the program between 1979 and 1982. However, a substantial portion of the funding was in replacement of previous programs such as the Neighbourhood Improvement Program, the Municipal Incentive Grant Program and the Municipal Infrastructure Program.

° It is estimated that between 10,000 and 15,000 new jobs would have been added each year to the national economy if federal programs such as the CSCP had been continued.

° Other federal programs introduced in recent years include the Urban Transportation Assistance Program (UTAP) which was in effect between 1978 and 1984, and the Railway Relocation and Crossing Act (RRCA) introduced in 1974 and still in effect. These programs, unfortunately, delivered less than $70 million annually and therefore lacked the necessary funding concentration to have a measurable impact on job creation.

VII MAJOR SOURCES OF REVENUE OF CANADIAN LOCAL GOVERNMENTS

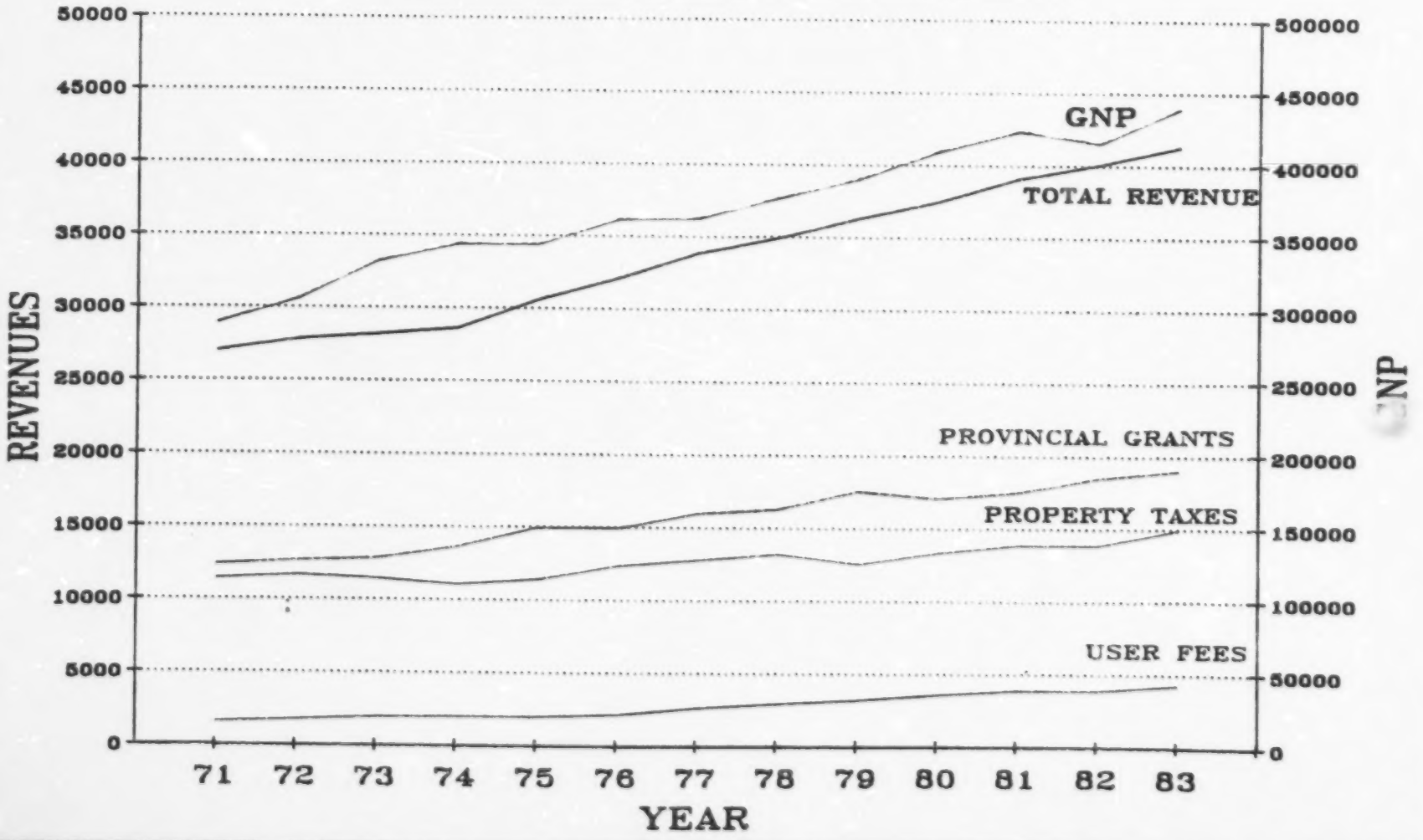
° Traditionally, Canadian municipalities and local boards (including school boards) have depended on the three major revenue sources to finance local services - provincial grants, property taxation and user fees. Since 1971, between 90 and 94 per cent of all revenue raised locally has come from these three sources. In 1983, almost $40 billion or nine per cent of GNP was generated from these sources (Chart 3 and Table 1).

° Over the years, local revenues have increased sufficiently to meet the servicing demands put on them and have generally matched the growth rate of GNP. Between 1971 and 1983, GNP rose 52.0 per cent as compared to 52.9 per cent for total local revenues (Chart 3 and Table 1).

CHART 3

REVENUE PERFORMANCE OF CANADIAN LOCAL GOVERNMENTS 1971 – 1983

($ MILLION, CONSTANT 1985 DOLLARS)



- Provincial funding provided the bulk of the growing requirements, increasing 54.3 per cent from $12.3 billion to $19.0 billion between 1971 and 1983. User fees experienced the most dramatic growth, tripling in size from $1.6 billion to $4.3 billion (Table 1).

- Growth in property tax revenues was more modest, at 31.0 per cent over the thirteen year period (Table 1). On the surface, this fact would appear to indicate that additional local revenue capacity is available through taxation. On closer scrutiny, however, it seems that Canadian municipalities and local boards were simply unable to increase taxes beyond current levels.

- The property tax to GNP ratio reached a high of 3.95 per cent in 1973, largely in response to relatively rapid growth in the tax base (stock of land and building improvements on it) in the earlier part of the decade. In subsequent years, new funding initiatives were introduced by various provinces to compensate for the lack of growth in the tax base. The additional provincial funding helped stablize the ratio to about 3.40 per cent of GNP.

- The potential for growth in provincial funding and user fees appears limited in light of the sizable increases these revenue sources experienced in past years. Collectively, provincial grants and user fees now account for more than

56.5 per cent of total local revenues, up five percentages points since 1971 (Table 1). Further dependence by Canadian municipalities on these revenue sources could result in a fiscal imbalance which may impair the effectiveness with which local services are to be provided in the future.

VIII MUNICIPAL INFRASTRUCTURE NEEDS: 1986-1990

- Between 1986 to 1990, it is projected that Canadian municipalities will spend a total of $22.1 billion on local capital projects (Chart 4 and Table 2).

- Expressed as a ratio of GNP, annual projected expenditures will remain at historically low levels and will decline further from 1.08 per cent in 1986 to 0.82 per cent by 1990 (Chart 6).

- Provincial assistance toward the projected expenditures during the period has been estimated to total approximately $7.5 billion for an average subsidy rate of 34.1 per cent over the five year period (Table 2).

- Provincial funding support is expected to vary from a high of 36.2 per cent in 1986 to a low of 32.6 per cent in the

INFRASTRUCTURE NEEDS OF CANADIAN MUNICIPALITIES BY TYPE OF SERVICE 1986–1990

($ MILLION, CONSTANT 1985 DOLLARS)

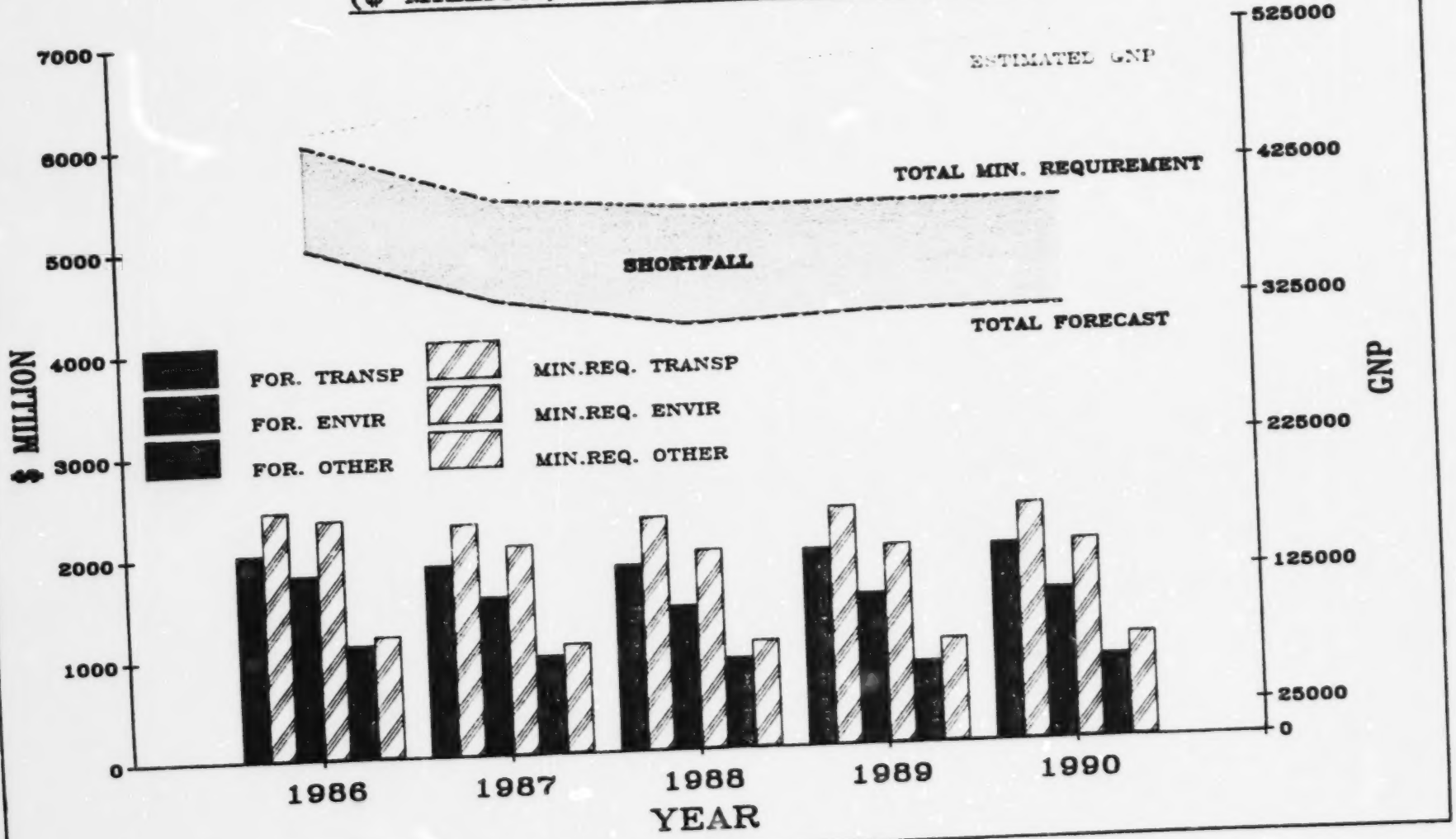


CHART 4

following year (Table 2). Despite these fluctuations, overall funding will remain above historical levels.

- As was the case during the past 15 years, the bulk of projected expenditures will be for transportation and environmental services. Jointly, these two service areas will account for approximately 80.0 per cent ($17.3 billion), on average, of the total spent during the five year period (Table 2).

- Spending on these two services, however, will increase sharply, as a per cent of the total, up almost 10 percentage points to 80 per cent. This would appear to reflect an attempt by municipalities to eliminate some of the accumulated backlogs in these two service areas. It also indicates an effort by Canadian municipalities to ensure that these key service areas are given priority in funding despite their current budgeting constraints.

- The $22.1 billion projected to be spent reflects the actual spending plans of Canadian municipalities. As such, it captures only those amounts which municipalities feel they will be able to fund under present economic conditions without compromising their financial viability. Its major limitation is that it does not measure the total infrastructure investments necessary to eliminate existing backlog and promote economic growth.

- To overcome this limitation, an additional estimate was prepared to reflect those amounts which municipalities should be spending to restore all facilities to a functioning state of repair and thus reverse any deterioration which has developed in recent years.

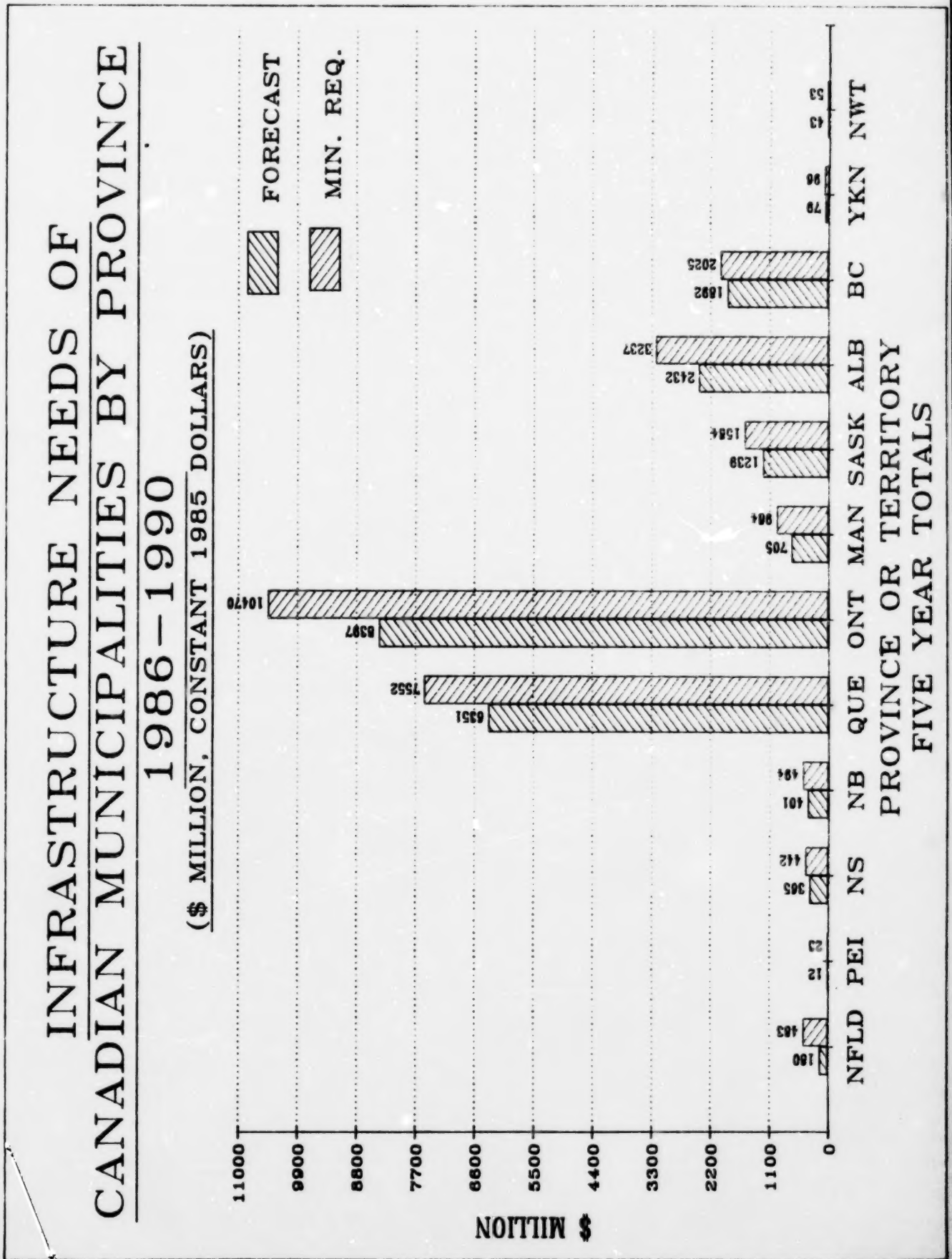
- A total of $27.4 billion, or almost 25 per cent more than the forecast expenditure of $22.1 billion was identified as the minimum amount required by Canadian municipalities to eliminate the identified backlog (Chart 4 and Table 2).

- More than 86.8 per cent of the total additional spending, or $4.6 billion would be earmarked for transportation and environmental services (Table 2).

- On a province by province basis, the extent of the backlog varies widely and would seem to be most acute in Atlantic and Western Canada where the additional level of spending required, over and above the forecast amounts, ranges from a low of 27.7 per cent in Saskatchewan to 168.3 per cent in Newfoundland (Chart 5).

- A comparison of future municipal infrastructure needs against past expenditure trends provides a useful benchmark against which the reasonableness of the estimates can be objectively evaluated. It also permits future needs to be

CHART 5


INFRASTRUCTURE NEEDS OF
CANADIAN MUNICIPALITIES BY PROVINCE
1986-1990
($ MILLION, CONSTANT 1985 DOLLARS)
FORECAST
MIN. REQ.
$ MILLION
11000
9900
8800
7700
6600
5500
4400
3300
2200
1100
0
160
183
12
23
365
412
401
484
6351
7552
8397
10170
705
864
1239
1584
2432
3237
1892
2025
79
96
43
53
NFLD PEI NS NB QUE ONT MAN SASK ALB BC YKN NWT
PROVINCE OR TERRITORY
FIVE YEAR TOTALS

evaluated in an historical context for the purpose of gauging their relative size and importance (Chart 6).

° Analyzed in five-year blocks, the data provides adequate confirmation of the reasonableness of the estimates. Both the expenditure forecast and the minimum identified requirements are neither unusually large or small. The minimum requirements, in particular, are only marginally higher than the average annual amounts incurred by Canadian municipalities during the last 15 years ($5.5 billion versus $5.3 billion) (Table 3).

° The data also conclusively shows that capital spending by Canadian municipalities has been declining in recent years and that the decline will continue into the foreseeable future, unless remedial steps are implemented to reverse the process. The fact that the forecast expenditure of $22.1 billion will be the lowest total since the 1971 to 1975 period, suggests that municipalities lack the necessary financial resources to stem the downward slide.

IX REMEDIAL ACTIONS NEEDED

° The options open to municipalities for dealing independently with the infrastructure backlog and related funding shortfall appear to be non-existent. Existing budgetary

PAST & FUTURE INFRASTRUCTURE TRENDS OF CANADIAN MUNICIPALITIES 1971–1990

(PER CAPITA, CONSTANT 1985 DOLLARS & AS A % OF GNP)

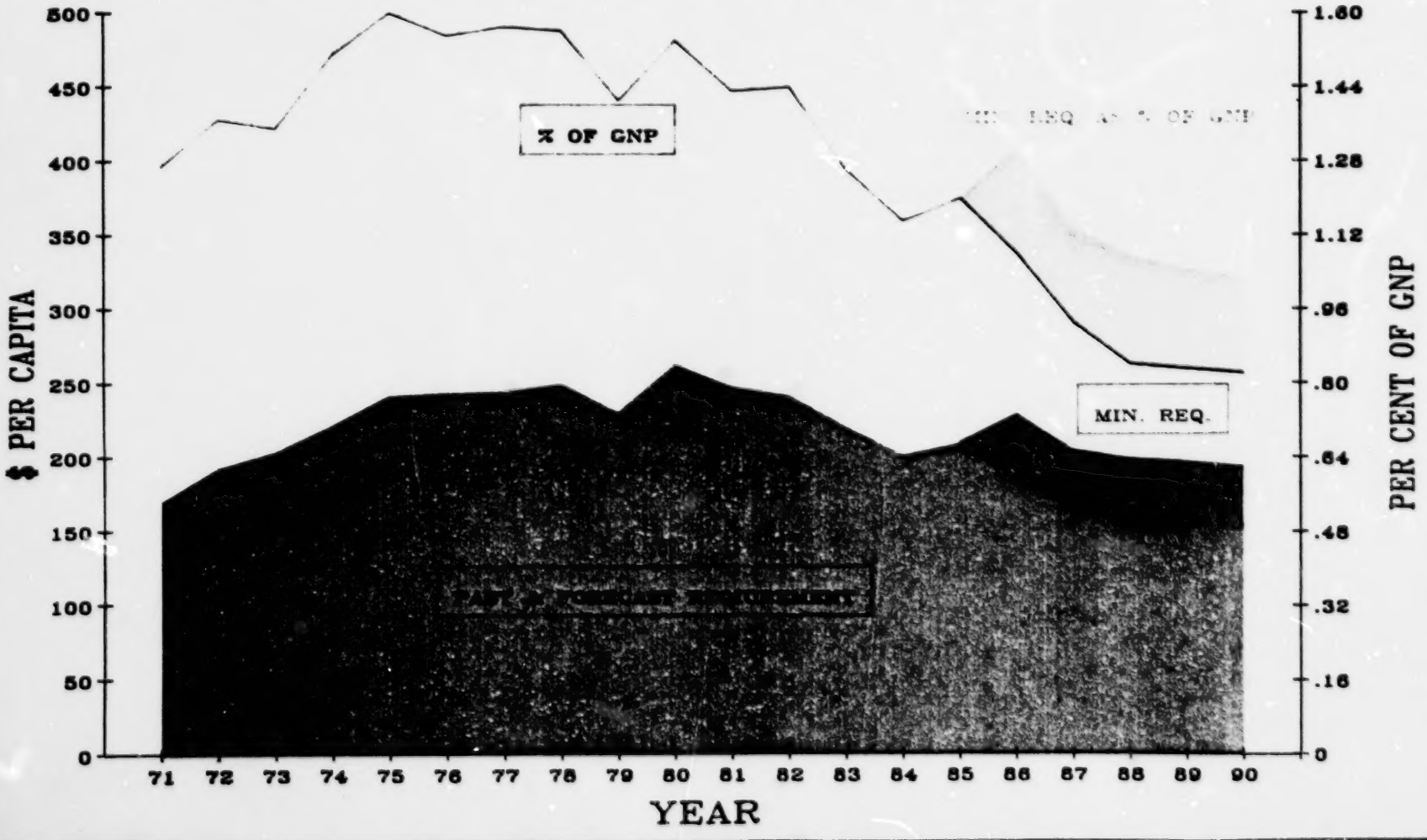


CHART 6

constraints leave little scope for municipalities to re-direct valuable local resources to prevent further deterioration in the current state of repair of municipal infrastructure.

- The possibility of further funding by the provinces appears limited. The provinces will be subsidizing in excess of one-third of the forecast municipal capital expenditures, totalling more than $7.5 billion. This amount represents a significant increase over historical levels and therefore indicates a conscious effort by the provinces to maintain their commitments to municipal infrastructure.

- A similar commitment by the Federal Government to a long-term program of infrastructure rehabilitation could help meet the anticipated shortfall.

- Although it is recognized that federal financial resources are limited, as evidenced by current efforts to reduce the deficit, it is also important to recognize that the economic benefits of municipal infrastructure investment are significant and warrant higher priority when considering funding options among competing programs.

- Possible approaches warranting investigation and discussion with federal authorities are the re-institution of federal funding to historical levels and the resurrection of

recently rescinded programs such as the Community Services Contribution Program and the Urban Transportation Assistance Program terminated in the early eighties.

° The primary desirable feature of the Community Services Contribution Program was that it delivered, on an annual basis, significant enough funding (in excess of $500 million per year in 1985 dollars) to have a measurable impact on job creation. Had the program been continued as part of an integrated, long-term, national economic strategy it would have added between 10,000 and 15,000 jobs per year.

° Future federal commitments should not be tied to specific types of municipal facilities or projects but rather, these details should be left for further negotiation and discussion between federal authorities and individual provinces.

X CONCLUSION

° The pattern of municipal spending on capital projects across Canada during the past fifteen years reveals that municipalities have been investing less and less (in relative terms) each year. Consequently, the infrastructure has not been renewed and maintained at a sufficient rate to avoid deterioration.

- Athough the state of repair of municipal infrastructure in Canada has not yet reached the crisis stage, available data indicates that a backlog of needed work resulting from a funding shortfall at the municipal level has emerged. If remedial steps are not taken in the near future to reverse the decline the costs to rehabilitate the infrastructure at a later date will be subtantially higher.

- Considering its responsibilities for regional and economic development, the participation of the Federal Government is warranted. It would represent a natural, further development in the sharing of responsibility for municipal infrastructure among the Federal Government, the provincial governments and municipalities. It would also signal a return to a more historical post war role in this field.

MAJOR SOURCES OF REVENUE OF CANADIAN LOCAL GOVERNMENTS: 1971-1983 TABLE 1
(figures in constant 1985 dollars)

REVENUE SOURCE	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	% CHANGE 1971-83
Property Taxes														
-Total ($million)	11,413	11,650	11,402	11,022	11,419	12,373	12,799	13,219	12,513	13,341	13,882	13,894	14,946	31.0
-Annual % Change	n.a.	2.1	-2.1	-3.3	3.6	8.4	3.5	3.3	-5.3	6.6	4.1	0.1	7.6	n.a.
-Per Capita ($)	529	534	517	493	503	538	550	562	527	555	570	564	599	13.2
-% of GNP	3.95	3.81	3.44	3.21	3.32	3.42	3.53	3.51	3.21	3.26	3.28	3.35	3.40	n.a.
-% of Total Revenue	42.2	41.9	40.4	38.5	37.3	38.5	37.8	37.8	34.4	35.6	35.5	34.6	36.2	n.a.
User Fees														
-Total ($million)	1,555	1,748	1,963	2,008	1,993	2,173	2,638	2,941	3,208	3,588	3,889	3,884	4,284	175.5
-Annual % Change	n.a.	12.4	12.3	2.3	-0.7	9.0	21.4	11.5	9.1	11.9	8.4	-0.1	10.3	n.a.
-Per Capita ($)	72	80	89	90	88	94	113	125	135	149	160	158	172	138.5
-% of GNP	0.54	0.57	0.59	0.58	0.58	0.60	0.73	0.78	0.82	0.88	0.92	0.94	1.00	n.a.
-% of Total Revenue	5.8	6.3	7.0	7.0	6.5	6.8	7.8	8.4	8.8	9.6	9.9	9.7	10.4	n.a.
Provincial Grants														
-Total ($million)	12,348	12,655	12,834	13,628	14,961	14,967	15,996	16,309	17,551	17,022	17,510	18,513	19,047	54.3
-Annual % Change	n.a.	2.5	1.4	6.2	9.8	.0	6.9	2.0	7.6	-3.0	2.9	5.7	2.9	n.a.
-Per Capita ($)	572	580	582	609	659	651	687	693	739	708	719	752	763	33.3
-% of GNP	4.27	4.14	3.87	3.96	4.35	4.14	4.41	4.33	4.50	4.16	4.14	4.46	4.34	n.a.
-% of Total Revenue	45.7	45.5	45.5	47.6	48.9	46.6	47.2	46.6	48.3	45.4	44.8	46.2	46.1	n.a.
Total Revenue														
-Total ($million)	27,034	27,815	28,203	28,629	30,623	32,132	33,885	34,969	36,330	37,518	39,124	40,112	41,340	52.9
-Annual % Change	n.a.	2.9	1.4	1.5	7.0	4.9	5.5	3.2	3.9	3.3	4.3	2.5	3.1	n.a.
-Per Capita ($)	1,253	1,276	1,279	1,280	1,349	1,397	1,456	1,487	1,530	1,560	1,607	1,628	1,657	32.2
-% of GNP	9.35	9.10	8.50	8.33	8.90	8.89	9.35	9.28	9.31	9.16	9.24	9.67	9.40	n.a.
Gross National Product (GNP)														
-Total ($million)	289,111	305,600	331,882	343,740	343,913	361,459	362,366	376,646	390,076	409,437	423,387	414,913	439,354	52.0
-Annual % Change	n.a.	5.7	8.6	3.6	0.1	5.1	0.3	3.9	3.6	5.0	3.4	(2.0)	5.9	n.a.
-Per Capita ($)	13,405	14,017	15,056	15,370	15,152	15,720	15,570	16,016	16,426	17,029	17,393	16,843	17,609	31.4
Population (000's)	21,568	21,802	22,043	22,364	22,697	22,993	23,273	23,517	23,747	24,043	24,343	24,634	24,950	15.7

FUTURE CAPITAL EXPENDITURE REQUIREMENTS OF CANADIAN MUNICIPALITIES BY FUNCTION: 1986-1990
(figures in $million, constant 1985 dollars)

TABLE 2

FUNCTION	FORECAST						MINIMUM REQUIREMENT						SHORTFALL 1986-90	
	1986	1987	1988	1989	1990	TOTAL 1986-90	1986	1987	1988	1989	1990	TOTAL 1986-90	$million	%
General Gov't.	130	149	115	89	96	578	161	135	126	127	133	682	104	18.1
Protection	177	110	91	87	90	555	132	119	120	122	121	613	58	10.5
Transportation														
-Roads, etc.	1,554	1,575	1,468	1,517	1,515	7,629	1,944	1,952	1,920	1,914	1,887	9,617	1,988	26.1
-Transit	483	318	374	428	432	2,035	508	338	384	435	443	2,108	73	3.6
Subtotal	2,037	1,893	1,842	1,945	1,947	9,663	2,452	2,290	2,304	2,349	2,330	11,725	2,062	21.3
Environment														
-Water & Sewer	1,532	1,330	1,195	1,254	1,213	6,523	1,979	1,767	1,679	1,671	1,681	8,777	2,254	33.7
-Other	291	238	228	239	279	1,274	376	296	283	291	286	1,532	257	24.4
Subtotal	1,822	1,568	1,423	1,493	1,491	7,797	2,356	2,063	1,962	1,962	1,967	10,309	2,512	32.2
Health & Welfare	69	70	67	83	89	378	90	84	84	84	84	426	48	12.6
Recreation & Cult.	440	401	344	305	301	1,791	480	419	397	409	412	2,117	326	18.2
Development & Oth.	314	247	284	243	247	1,334	347	329	335	282	279	1,572	238	17.8
Total	4,988	4,437	4,165	4,244	4,262	22,096	6,018	5,438	5,326	5,335	5,327	27,443	5,347	24.2
Per Capita ($)	191	167	155	156	154	165	230	206	200	198	194	205	40	24.7
% of GNP	1.08	0.93	0.85	0.83	0.82	0.90	1.31	1.14	1.08	1.05	1.03	1.12	n.a.	24.4
Provincial Grants	1,807	1,445	1,403	1,424	1,454	7,533	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
% of Total	36.2	32.6	33.7	33.6	34.1	34.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
GNP	460,279	477,212	492,381	508,463	519,175	2,457,511	460,279	477,212	492,381	508,463	519,175	2,457,511	n.a.	n.a.

HISTORICAL PERSPECTIVE OF THE INFRASTRUCTURE NEEDS
OF CANADIAN MUNICIPALITIES: 1971-1990
(figures in constant 1985 dollars)

TABLE 3

INDICATOR	1971-75	1976-80	1981-85	Forecast 1986-90	Minimum Requirement 1986-90
Total Capital Expenditures					
-Five Year Total ($million)	23,053	29,002	28,057	22,096	27,433
-Annual Average ($million)	4,610	5,800	5,611	4,419	5,487
-Annual Change ($million)	458	164	-183	-229	-16
-Annual % Change	10.7	3.0	-3.0	-4.5	-0.1
-Per Capita ($)	206	243	223	165	205
-% of GNP	1.42	1.53	1.30	0.90	1.12
Federal Capital Grants					
-Five Year Total ($million)	974	1,586	600	n.a.	n.a.
-Annual Average ($million)	195	317	120	n.a.	n.a.
-% of Expenditures	4.2	5.5	2.1	n.a.	n.a.
Gross National Product (GNP)					
-Annual Average ($million)	322,849	379,996	434,413	491,502	491,502
-Annual % Change	4.5	3.2	1.7	3.1	3.1